KAISER RESOURCES

AR10

1979

Annual Report

Corporate Profile

Kaiser Resources Ltd. is a diversified Canadian energy company engaged primarily in the production and sale of metallurgical coal, and the exploration for crude oil and natural gas.

Kaiser Resources, incorporated in British Columbia in 1967, is Canada's largest producer of metallurgical coal, a coking coal used in steelmaking. The Company's coal division operates surface and underground mines and coal processing facilities at Sparwood, in southeastern British Columbia. The division is engaged in engineering and in licensing hydraulic mining technology. It also operates a modern coal port at Roberts Bank, south of Vancouver.

The Company's oil and gas division is engaged in exploration for oil and gas in Canada's frontier regions and in foreign countries, including the United Kingdom, the United States, and China.

Kaiser Resources, with seven consecutive years of profitable operations, substantial reserves of coal, and promising oil and gas prospects, is well positioned for the energy opportunities and challenges of the 1980s.

Contents

Cover:
The 120,000-ton Katori Maru departs with a cargo of coal from the Company's port facilities at Roberts Bank, south of Vancouver.

Highlights

Thousands except per share data	1979	1978 (Restated)	% Change
Revenue	**$484,284**	$369,131	31
Net earnings	**61,676**	62,144	(1)
Net earnings per share	**2.29**	2.32	(1)
Dividends per share	**1.00**	.925	8
Funds provided by operations	**142,792**	108,036	32
Working capital	**85,229**	67,289	27
Capital expenditures	**116,399**	43,953	165
Total assets	**945,911**	866,666	9
Total long-term debt	**373,984**	352,956	6
Employment costs	**107,690**	59,387	81
Coal division shipments — Thousand tons:			
Metallurgical coal	**5,888**	5,214	13
Thermal coal	**181**	403	(55)
Coke and breeze	**111**	121	(8)
Oil and gas production:			
Crude oil and natural gas liquids —			
Thousand barrels	**9,340**	2,477	277
Daily average — Thousand barrels	**25.6**	26.9	(5)
Natural gas —			
Million cubic feet	**25,886**	6,548	295
Daily average — Million cubic feet	**71.0**	71.2	—
Number of shareholders	**6,386**	6,076	5
Number of employees	**2,579**	2,730	(6)

Tonnage figures in this report are expressed in long tons (2,240 pounds).
Oil and gas statistics for 1978 pertain to the three months ended December 31.

Distribution of Pre-Tax Earnings from Continuing Operations

56.7% Provision for Income Taxes

20.9% Dividends

22.4% Retained Earnings

100.0% Total Pre-Tax Earnings

To Our Shareholders:

1979 was another good year for Kaiser Resources.

Revenue increased by 31 percent to a record $484 million and earnings before financing charges improved in all segments of the Company's business. Cash flow rose by 32 percent to $143 million or $5.30 per share, compared with $108 million or $4.03 per share in the preceding year. Consolidated net earnings were $61.7 million or $2.29 per share, compared with $62.1 million or $2.32 per share in 1978, down slightly due to high interest costs.

Assets Sold for $771 Million

Early in 1980, Kaiser Resources completed the largest private sector cash transaction in the history of Canada, repaid substantially all Company debt, and reduced by one-third the number of outstanding common shares. The Company sold for $771 million the majority of the Kaiser Petroleum Ltd. assets acquired in late 1978 and early 1979 for $482 million. The sale was completed in two separate transactions consisting of a $702 million cash payment for the Company's domestic mainland oil and gas operations, and $69 million for its asphalt paving and materials business.

Proceeds from the sale were applied to the repayment of $322.5 million in loans attributable to the initial acquisition of the assets, and to the purchase of nine million shares of Kaiser Resources at a price of $44.00 per share through a pro rata tender offer. Shareholders thus were given an opportunity to sell almost half of their shares at a price approximately 30 percent higher than market prices prevailing prior to the offer, while retaining a portion of their ownership and participation in the continuing operations of the Company. The transaction has reduced the number of outstanding common shares from 27 million to 18 million.

International Oil Activities Increase

The Company broadened its search for oil and natural gas during 1979 and took steps to selectively diversify involvement in international activities. We expanded our offshore investment in the United Kingdom, launched new operations in the United States, participated in offshore exploration in Canada and initiated activities in China's Yellow Sea. Although our domestic mainland oil and gas operations were sold, we remain committed to the industry in a manner we believe will maximize the return on invested capital. Cash received in the transaction enabled the Company to substantially eliminate debt during a period of high interest rates, while simultaneously realizing a considerable gain on investment.

During the year, Kaiser Resources increased its participation in a consortium active in development of the Brae Field, in the British sector of the North Sea. The purchase of an additional 6.3 percent working interest in the Brae development raised our position to 7.7 percent. The development program for the southern portion of the Brae Field has been approved by the United Kingdom Government and production is scheduled to begin in 1983. Recently, significant shows of hydrocarbons have been encountered in a well off the coast of Scotland, approximately nine miles northeast of the Brae Field discovery well.

The events of 1979 have reinforced our view that shareholders will benefit most through diversification of our investment in those areas of Canada and the world which promise the greatest return. In the oil and gas industry, we have learned much in a brief period. The steps taken to consolidate our position and secure the necessary financial strength to expand in areas of high potential should result in continued earnings improvement.

Coal Shipments At Record Levels

The strategy adopted in the mid 1970s to diversify our coal markets geographically continues to have a positive influence on the Company's results. In 1979, total shipments, led by a 28 percent advance in sales to countries other than Japan, exceeded six million tons for the first time. In Japan, the coal market has partially recovered from the reduced demand of the past few years.

An integral part of our market diversification policy has been to establish Kaiser Resources as a base supplier of metallurgical coal to new and expanding steel mills throughout the world, with a view to increasing contract shipments as production of crude steel escalates. The scale of the Company's operations, its substantial coal reserves, and its ability to add further processing capacity at relatively low incremental cost, will enable us to capitalize on additional worldwide demand as it develops in the decade ahead.

Several programs are underway which could lead to increased production from existing and new facilities. These include a possible increase in coal processing capacity, a proposed $200 million mine and related facilities at Greenhills, and expansion of the Company's deepwater port at Roberts Bank.

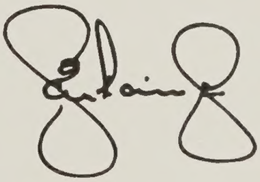
Achievement And Challenge

Ten years have passed since Kaiser Resources made its initial coal delivery to Japan, our first and largest coal consumer. Pioneering the use of modern mining technology, the Company overcame the early years of severe operating problems and substantial losses to become Canada's largest producer of metallurgical coal. The decade ended with a major commitment in oil and gas exploration, establishing the Company's role as a diversified energy producer for the 1980s.

Throughout its brief history, Kaiser Resources has tried to adapt to changing circumstances and respond quickly to each new opportunity. Today the Company is stronger than ever. By consolidating our resources at an opportune time, we have entered the oil and gas industry on a solid footing, realized a substantial profit for our shareholders, strengthened ties with our major coal customers and significantly improved our capability to finance future growth and development.

With the continued dedicated efforts of our employees and the support and confidence of our shareholders, Kaiser Resources enters this new decade in the spirit with which it emerged from the last — eager to confront new challenges and to seek further growth as a dynamic Canadian energy company with expanding worldwide interests.

March 28, 1980



Edgar F. Kaiser, Jr.
Chairman & Chief Executive Officer

Coal Division

Kaiser Resources, Canada's largest producer of metallurgical coal, met the increased demand of worldwide customers in 1979 through record production and shipment levels.

Operations Review

Reserves And Development

Kaiser Resources enters the 1980s with highly-efficient mining and port operations, a skilled work force, and substantial reserves of metallurgical coal. The Company has sales contracts with customers in more than a dozen countries on four continents, the result of intensive efforts to diversify markets geographically in recent years.

Kaiser Resources owns the coal rights on approximately 65,000 acres of land in southeastern British Columbia and holds exploration licenses from the Provincial Government covering an additional 11,000 acres in the same vicinity. Recoverable reserves of clean metallurgical coal are estimated at 335 million tons. Exploration work has disclosed significant additional deposits which require further exploration and study to determine their extent and recoverability.

The Company is Canada's largest producer of metallurgical coal and accounts for more than 40 percent of the country's coking coal exports. Its facilities at Sparwood, B.C., approximately 700 rail miles from Vancouver, include one of the world's largest surface mining operations, a sophisticated underground hydraulic mine, and a modern preparation plant for processing metallurgical coal to sales contract specifications. On the coast near Vancouver, Westshore Terminals Ltd., a wholly-owned subsidiary, operates the port of Roberts Bank through which coal destined for world markets is handled for Kaiser Resources and other companies.

Consideration is being given to the development of a new surface mining operation at Greenhills, about 25 miles north of Sparwood. The $200 million project would include a new preparation plant with a capacity of two million tons of clean metallurgical coal per year. Development of the mine and related facilities is subject to the securing of sales contracts and, with that objective, coal samples have been mined for testing by potential customers. The project could be in full production by 1984 and would require a workforce of approximately 650, providing a substantial lift to the economy of the region.

Large rotary drills leave a pattern of holes in the snowy landscape (left) in the first stage of surface mining operations. The holes are filled with explosives used to blast the rock overburden for removal by trucks and shovels (right).

Coal samples being mined at Greenhills (far right) for testing by potential customers.

Coal Production

	(Thousands of tons)	
	1979	1978
Raw metallurgical (surface)	7,208	5,736
Raw metallurgical (underground)	829	783
Clean metallurgical (preparation plant)	6,254	5,282
Thermal	132	531
Coke	102	106

Production And Processing

Production of clean metallurgical coal by the Elkview preparation plant rose by 18 percent to a record 6.3 million tons in 1979 as Kaiser Resources met the increased demand of worldwide customers. In anticipation of expanding markets in the 1980s, the Company is examining a program to increase the capacity of the plant to seven million tons per year at an estimated cost of $16 million. Present capacity is in excess of six million tons annually with a yield of clean coal from raw coal of approximately 76 percent. A new scrubber has been installed at the plant to improve air quality and to cope with recent and projected increases in capacity.

Surface mining, in which the coal seam is exposed through complete removal of the overburden, accounted for 90 percent of the Company's production of raw metallurgical coal in 1979. A large scale truck and shovel operation is employed in surface mining, and the division is continuing performance studies to determine the cost efficiency of the 350-ton Terex Titan, the world's largest truck. A component rebuild facility, constructed at a cost of more than $3 million, is expected to reduce downtime substantially and increase the technical content of work performed on site by skilled tradesmen.

The Company completed 35,000 feet of development work in a new section of the underground hydraulic mine, in which high-pressure water is used to cut coal from thick seams. The $50 million project, scheduled to go into full production in 1980, will extend the life of the mine by an estimated 14 years and is expected to produce approximately 1.2 million tons of raw coal annually. Construction of a new building that includes first aid, ambulance and repair facilities and change rooms for 250 people was completed during the year.

Newly constructed administration and warehouse buildings are scheduled to be occupied in Sparwood in 1980. The two-storey office structure provides 64,000 square feet of space. The high density central warehouse, designed to contain 35,000 items, increases storage capacity by 80 percent and is expected to significantly improve overall inventory management.

Collective Agreements

A two-year collective agreement, effective January 1, 1980, was reached during the first quarter of 1980 with Local 7292 of the United Mine Workers of America, representing approximately 1,500 hourly production and maintenance employees, to end a two-month strike at the mine. Negotiations for a new collective agreement, retroactive to January 1, 1980, are underway with the Office and Technical Employees Union, representing 135 employees at Sparwood.

The Elkview preparation plant (below), which processes metallurgical coal to sales contract specifications, may undergo a $16 million expansion to increase capacity to seven million tons per year.

Performance tests continue on the 350-ton Terex Titan (right). The world's largest truck, its height in the unloading position is equal to a six-storey building.

New warehouse and administration building form part of a fresh image for the Michel Valley at Sparwood.

Terminals And Transportation

Coal shipped through the Roberts Bank deepwater port near Vancouver exceeded 10 million tons for the first time, stretching the design capacity of the terminal facilities. Westshore Terminals Ltd., the Company's wholly-owned subsidiary which operates the port, unloaded 112,000 rail cars and loaded 160 ships during the year. The total tonnage included six million tons of coal from Kaiser Resources and four million tons of coal, coke and related products from other companies. A cargo of 136,686 tons of coal loaded aboard the freighter Lake Tahoe in November was the largest ever shipped out of the Port of Vancouver. The vessel set sail for Japan after being loaded in less than two days' operating time.

The Company has a contract with CP Rail for the transportation of metallurgical coal by unit trains approximately 700 miles from the mine to the port at Roberts Bank. The trains complete the round trip in about four days. Freight charges represent one of the largest components of the cost of selling the Company's coal on world markets. The current freight rate is $13.35 per ton and is subject to review effective April 1, 1980.

The Company is actively pursuing a plan to expand its facilities at Roberts Bank, enabling Canada to increase coal exports to world markets from existing and new mines in British Columbia and Alberta. In a proposed three-phase development, port capacity would be expanded from the current 10 million tons per year to an ultimate annual throughput in excess of 27 million tons. Expanding the port to that capacity will require the construction of a new 50-acre site dedicated to coal.

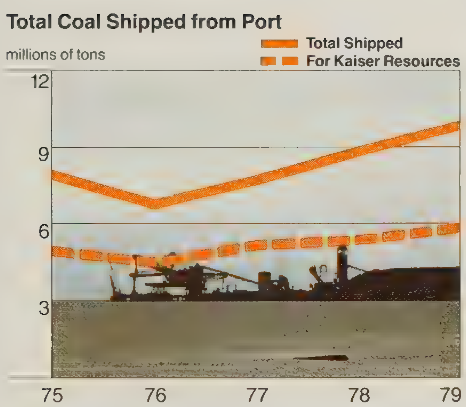
Expansion of the Roberts Bank port near Vancouver would enable Canada to increase coal exports to world markets. Shipments from the port in 1979 were in excess of 10 million tons, more than in any other year since operations began in 1970.

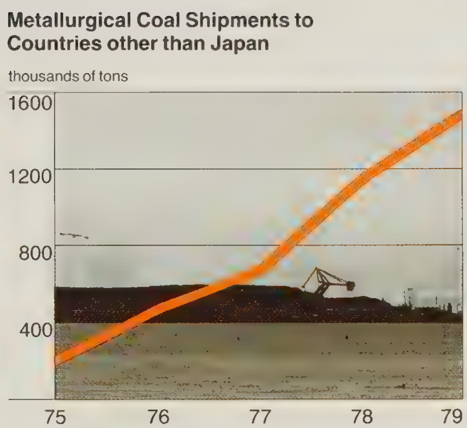
Marketing

Shipments of coal, coke and related products totalled a record 6.2 million tons in 1979 as demand for metallurgical coal strengthened in the Company's traditional markets and deliveries to developing countries escalated.

Metallurgical coal shipments increased by 13 percent to 5.9 million tons, of which 74 percent was delivered to Japan. Shipments to that country increased to 92 percent of the contract quantity from 85 percent in 1978. The improvement was attributable to increased steel production and strike actions which affected Japan's Australian coal suppliers.

The continuing success of the Company's market diversification program was reflected in sales to countries other than Japan. These shipments totalled 1.5 million tons, a 28 percent increase over 1978. Korea, the Company's second largest and fastest growing customer, increased its purchases by 350,000 tons or 80 percent in 1979. Sales to Latin America were up by 56 percent over the previous year and further growth is anticipated in that market in the future. Cargo shipments to Italy, Sweden and Spain also contributed to sales growth in 1979 and may lead to long-term business for the Company. Thermal coal sales, primarily to Denmark, declined in 1979 due to operational constraints related to the substantial increase in metallurgical coal production.





The Isefjord Power Company of Denmark purchases thermal coal from the Company for use in this modern power station.

Reclamation And Environmental Control

Kaiser Resources, a consistent winner of the British Columbia Mine Reclamation Award for leadership in the restoration of disturbed land, spent $2 million on reclamation during 1979. A total of 276 acres was prepared and seeded, bringing to 2,266 acres the amount of land which has been placed in various stages of reclamation during the past decade. Initial results of a long-term study show that the reclamation program is providing suitable habitat for wildlife, primarily elk and deer.

Environmental control projects carried out during 1979 included the phasing out of screening and drying facilities in the Michel Valley, near Sparwood, and the transfer of thermal coal loading operations to the rail loop at the Elkview preparation plant. The Company is studying a program involving either the construction of new coke ovens, which would approximately double present capacity to 200,000 tons per year, or the upgrading of its existing coke-making facilities. The study is expected to be completed in 1980. The cost of upgrading existing facilities is estimated at $10 million while the construction of new coke ovens would be in the range of $60 million to $80 million.

Elk graze in an area reclaimed by Kaiser Resources as part of its Sparwood operations. Initial results of a long-term study show that the reclamation program is providing suitable habitat for wildlife. Below, an employee examines growth in the Company's greenhouse facilities.

Oil And Gas Division

Kaiser Resources is engaged in exploration for oil and gas in Canada and in foreign countries. The Company increased its investment in the North Sea's extensive Brae Field during 1979 and launched operations in the United States.

Operations Review

Production And Exploration

Following an active year in Canadian oil and gas operations, Kaiser Resources sold its domestic mainland holdings on February 14, 1980, for $702 million. These operations, located in Western Canada, produced an average of 25,600 barrels of crude oil and 71 million cubic feet of natural gas per day in 1979.

Kaiser Resources increased its investments in offshore oil and gas exploration in 1979 and launched operations in the United States. These offshore and U.S. activities have been retained by the Company and are expected to be of significant future benefit.

Frontier Areas

Kaiser Resources participated in an important gas discovery near Sable Island, off the coast of Nova Scotia, during 1979. The well, Venture D-23, flowed natural gas at rates of 10 million to 22 million cubic feet per day from four tests carried out at varying depths. The tests were conducted below 14,000 feet in a highly-pressurized zone. Seismic evaluation and the drilling of at least two wells is planned for 1980, using rigs fitted with special equipment capable of withstanding the extremely high pressures encountered at that depth.

The Company holds a 10 percent working interest in 884,000 acres of petroleum and natural gas rights in the area and has an option to earn a 10 percent working interest in an additional 230,000 acres by participating in the drilling of an exploratory well on this acreage. If the planned multi-well program determines that gas reserves are sufficient to support commercial development, the Sable Island area could become an important source of energy for Eastern Canada.

The Company holds a one percent net profits interest in four blocks in the Beaufort Sea. It also owns approximately one-twelfth of Beaufort Exploration Limited which holds a two percent net profits interest in nine blocks and a one percent net profits interest in another area. In addition, Kaiser Resources is taking part in seismic programs in China's Yellow Sea.

Flaring of fluids produced during offshore testing operations reduces environmental pollution. Aladdin II, a semi-submersible drilling rig, was used in the Brae Field exploration program during 1979.

The Canmar Kigoriak, a 17,400-horsepower experimental icebreaker, is shown en route to the Beaufort Sea on its maiden voyage from Saint John, N.B., in 1979. The powerful Dome Petroleum vessel can break through ice approximately six feet in thickness at a speed of four knots.

United States

Kaiser Resources, through a new 90-percent-owned subsidiary, Kaiser Oil (U.S.) Ltd., began exploration for oil and natural gas in the United States. This corporation, located in Denver, Colorado, has leased 23 prospects in 10 states. Other areas are under active consideration.

Kaiser Oil (U.S.) holds oil and gas rights to 107,000 net acres of land in Alabama, Arkansas, California, Colorado, Louisiana, Mississippi, Nebraska, Oklahoma, Texas and Wyoming. This inventory of oil and gas prospects provides the basis for a balanced drilling program in 1980, ranging from close-in low risk wells to exploratory high risk alternatives.

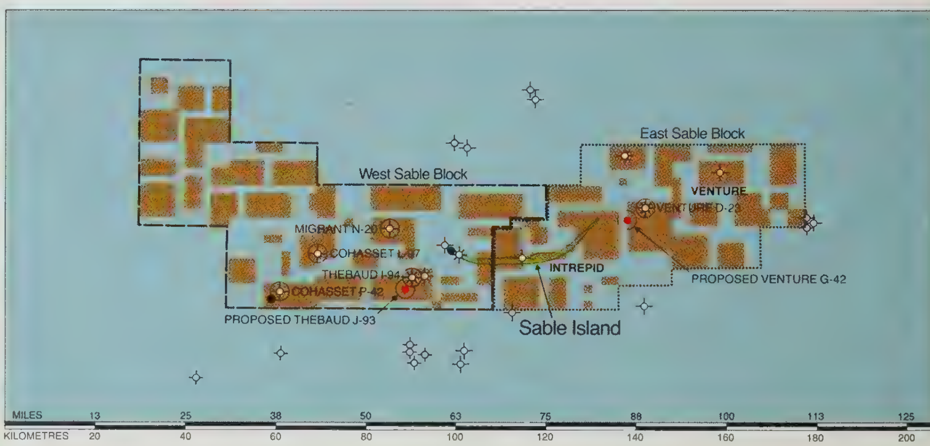
The Company's strategy in its U.S. operations is to acquire land which will lead to drilling and production, as opposed to the acquisition of producing properties. The Company intends to operate some wells directly in addition to participating in joint ventures. Favourable land acquisition costs and the availability of immediate markets at international prices for newly discovered oil and gas should contribute to rapid growth in the U.S. and a substantial return on the Company's investments there.

Beaufort Sea

Net Profit Interests
Gas Wells
Oil Wells
Oil and Gas Wells
Gas Fields
Oil Fields

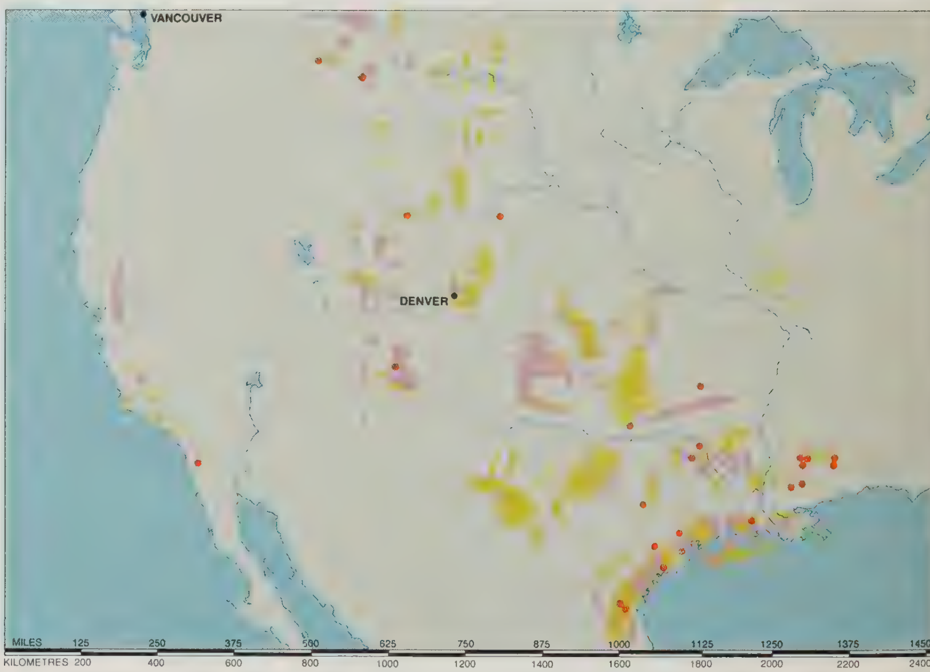
Sable Island

Proposed 1980 Locations
Discovery Wells
K.R.L. Leased Acreage 10% Interest



U.S.A.

Areas in which Kaiser Resources holds Petroleum and Natural Gas Rights
Oil Fields
Gas Fields



North Sea

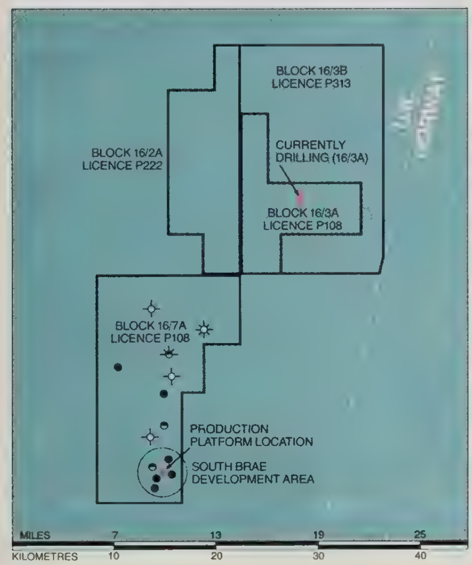
Kaiser Resources purchased an additional 6.3 percent interest in the Brae Field, located in the British sector of the North Sea, in October, 1979. The Company's total position, now a 7.7 percent interest, includes a major drilling and development project which is commencing in the southern portion of the Brae Field. The Company also holds working interests in other areas of exploration potential in the North Sea.

Plans to develop the southern portion of Brae in Block 16/7a have been approved by the United Kingdom Government. The field is located 155 miles off the northeast coast of Scotland in water depth of 370 feet. It will be developed with a conventional steel platform capable of processing 100,000 barrels of oil and 12,000 barrels of natural gas liquids per day. Reserves developed from this platform are expected to approximate 300 million barrels of liquid hydrocarbons.

Installation of the platform is expected to begin in 1982 and initial production is planned for 1983, with a peak level of 112,000 barrels per day of liquid hydrocarbons being transported to shore by pipeline. Participants in the Brae Field will be able to obtain world prices for oil produced from this reserve.

Brae Field

- Oil Well
- Gas Well
- Dry Well
- Oil Well (non commercial)
- Gas Well (non commercial)



Yellow Sea

- Oil Fields
- Oil Pipelines

North Sea

- Oil Fields
- Gas Fields
- Pipeline
- Planned Line

The stacker-reclaimer is a key unit in the Company's efficient coal-handling operations at the Roberts Bank port. One person, positioned in a cab at the end of the 200-foot boom, can operate this mammoth machine at rates of up to 4,000 tons an hour.

Financial Summary

Net Earnings

Consolidated net earnings declined nominally to $61.7 million from $62.1 million in 1978. Earnings per share were $2.29 in 1979 compared with $2.32 in the preceding year. These amounts were calculated on the basis of the weighted average number of shares outstanding during the year of 27.0 million in 1979 and 26.8 million in 1978.

Kaiser Petroleum

On October 3, 1978, Kaiser Resources acquired 79 percent of the outstanding shares of Kaiser Petroleum Ltd., formerly Ashland Oil Canada Limited, and by year-end had increased its ownership to 97 percent. In early 1979, the Company acquired the remaining shares for $16.9 million, bringing the final cost of the acquisition to $482.4 million. Accordingly, the financial results for 1979 include the results from oil and gas and asphalt paving and materials activities for the full year as opposed to only three months in 1978.

Discontinued Operations

During the fourth quarter of 1979, the Company decided to dispose of the asphalt paving and materials business acquired as part of the Kaiser Petroleum purchase. The operating results for that business are therefore reflected in the earnings statement as net earnings from discontinued operations, and the net assets of the discontinued business have been shown as current assets in the balance sheet. The business was sold early in 1980 for $69 million. Under the agreement, the purchaser paid $57.8 million in cash and issued to the Company $11.2 million of subordinated notes.

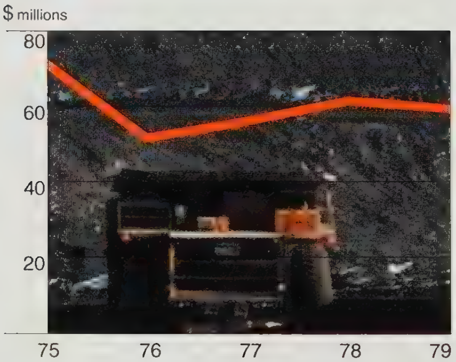
Sale Of Canadian Oil And Gas Operations

Effective February 1, 1980, the Company sold its mainland Canadian oil and gas operations, acquired in the purchase of Kaiser Petroleum, for $702 million cash. From the proceeds of the sale, the Company repaid $322.5 million of its outstanding debt and, pursuant to a tender offer dated February 15, 1980, purchased 9,000,000 of the Company's outstanding common shares at a price of $44.00 per share. The purchase, on a pro rata basis, reduced the outstanding common shares to 18,100,205.

As a result of the tender offer, Kaiser Steel's interest in the Company was reduced to 25 percent from 32.1 percent and public shareholder interest declined to 35 percent from 41.2 percent. The interest of the Company's Japanese customers, who did not tender their shares, increased to 40 percent from 26.7 percent.

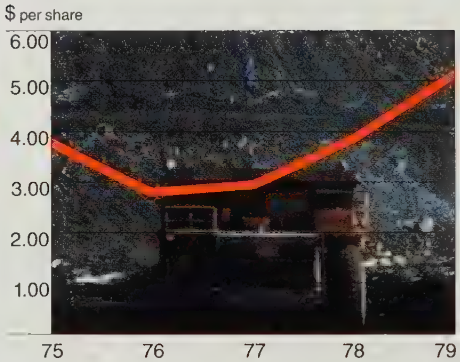
Net Earnings

$ millions



Funds from Operations

$ per share



Return on Equity

% Ratio of Annual Earnings to Average Shareholders' Equity

Continuing Oil And Gas Operations

Kaiser Resources invested $23 million in 1979 to increase its participation in the Brae Field, in the United Kingdom sector of the North Sea, to 7.7 percent from 1.4 percent. Development of the Brae Field is expected to begin in 1980, with commercial production starting in late 1983. The Company's share of development costs during that period is estimated to total $235 million. One half of the amounts advanced as development costs will constitute loans to another participant in the project under a carried interest obligation. These loans are repayable with interest by the participant only from 70 percent of its future net proceeds earned from the project.

Kaiser Resources began exploration for crude oil and natural gas in the United States in 1979 through Kaiser Oil (U.S.) Ltd. During the year, the Company invested $3 million to acquire oil and gas rights in 10 states.

Investment Income

The investment of corporate cash balances in 1979 earned interest income of $6.2 million, down from $9.8 million in the previous year. The decrease resulted from lower cash balances, partially offset by the higher rates of interest prevailing during 1979.

Taxes

	(Millions)	
	1979	1978
Income and mining taxes	$ 78.3	$ 76.4
Export tax on crude oil	88.9	8.3
Crown royalties on oil and gas	51.2	11.5
Mineral land taxes	7.9	7.4
Property taxes	4.0	2.7
Corporation capital taxes	.3	.2
	$230.6	$106.5

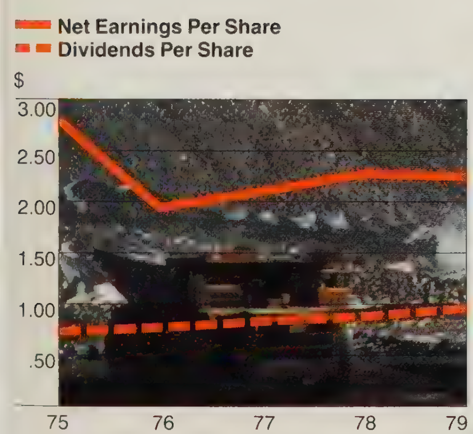
The Company contributes significant amounts of taxes and royalties to federal, provincial and municipal governments in Canada. Provision for taxes and royalty payments in 1979 amounted to $230.6 million, compared with $106.5 million in the previous year. The increase in taxes related primarily to the inclusion of the oil and gas and asphalt paving and materials businesses for all of 1979, versus only the last quarter of 1978. The effective tax rate for continuing operations in 1979 was 56.7 percent, up from 54.6 percent in 1978. The increase in the effective tax rate was due primarily to the amortization of the purchase premium paid in connection with the acquisition of Kaiser Petroleum, which is not a deductible expense for tax purposes.

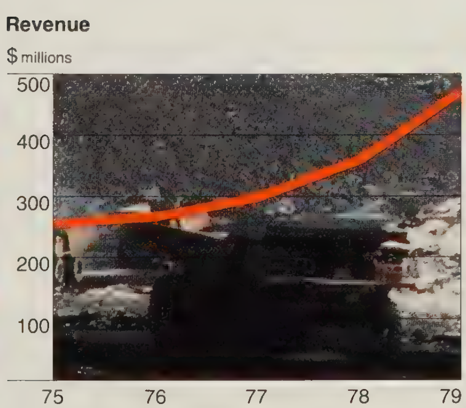
Funds From Operations

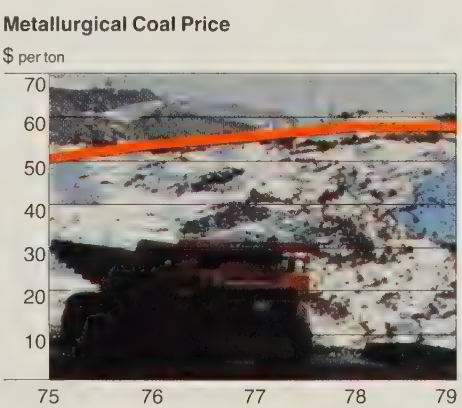
Funds provided by operations rose to $142.8 million in 1979 from $108 million a year earlier. The increase resulted from the inclusion of the oil and gas operations and the asphalt paving and materials business for all of 1979.

Long-Term Debt

Kaiser Resources borrowed $322.5 million in 1978 from four Canadian banks to help finance the acquisition of Kaiser Petroleum. Interest on this debt during 1979 was based on the prime rate and amounted to $41.2 million. These loans were repaid in early 1980 from the proceeds of the sale of the Company's domestic mainland oil and gas operations.







Dividends

The Company paid dividends amounting to $1 per common share in 1979, based on quarterly payments of 25 cents per share. Dividends paid during the year amounted to $27.0 million or 43.7 percent of net earnings, compared with $24.8 million or 39.9 percent of earnings in 1978.

Coal

	(Thousands)
Revenue	$371,891
Operating profit before interest and taxes	141,749
Capital expenditures	27,762
Total assets	215,520

Revenue from coal operations rose to a record $371.9 million, compared with the previous high of $341.2 million in 1978. The improvement resulted primarily from a 7.7 percent increase in shipment levels during 1979.

Approximately 69 percent of the Company's 1979 revenue from coal shipments was derived from sales to Mitsubishi Corporation of Japan under a long-term sales contract extending to March 31, 1985, compared with 71 percent in 1978. Under an amendment to the Mitsubishi contract, the price of coal was established at $63.95 per ton, effective April 1, 1980, and will increase to $68.05, effective April 1, 1981. The escalation provisions of the contract, under which prices are adjusted to cover cost increases, are suspended for the two-year period.

Property, plant and equipment purchases amounted to $27.8 million in 1979. Major expenditures included $7.9 million for the development of a new section of the hydraulic mine which is nearing completion, $7.9 million for new office, warehouse and maintenance facilities, $2.6 million for a feasibility study of the Greenhills mining project and $2.6 million for environmental control and waste disposal improvements. The balance was spent primarily on equipment replacements and improvements.

Capital expenditures in 1980 are expected to total approximately $32 million. An estimated $14 million will be spent on a new shovel, a new drill and seven new trucks for surface mining operations. An additional $2 million will be spent on the Greenhills mine feasibility project and the remaining $16 million will be applied to general improvements and replacement of equipment and facilities.

Oil and Gas

	(Thousands)
Revenue	$109,769
Operating profit before interest and taxes	41,259
Capital expenditures	71,007
Total assets	645,893

Revenue from oil and gas operations in 1979 totalled $109.8 million. Of this amount, 67 percent was earned from the sale of crude oil, 24 percent from the sale of natural gas and 9 percent from interest and miscellaneous income. Crude oil sold during the year at an average price of $12.44 per barrel and natural gas at an average price of $1.51 per thousand cubic feet.

The oil and gas division spent $20.7 million on acquisitions of property, $38.8 million on exploration and $23.2 million on development activities during 1979.

The Company follows the "successful efforts method" of accounting for its oil and gas activities. The effect of this method is to capitalize only those costs which can be directly related to future economic benefits.

Consolidated Statement of Earnings
For the years ended December 31, 1979 and 1978

	(Thousands)	
	1979	1978
Revenue:		(Restated)
Coal (Note M)	**$374,298**	$333,921
Oil and gas	**103,423**	25,680
Interest and other income, net	**6,563**	9,530
	484,284	369,131
Costs and expenses:		
Cost of products sold	**218,375**	171,795
General and administrative	**35,909**	23,911
Exploration and related costs	**14,361**	9,629
Interest on long-term debt	**44,265**	8,396
Depreciation, depletion and amortization	**42,263**	19,376
	355,173	233,107
Earnings from continuing operations before income taxes and minority interest	**129,111**	136,024
Provision for income taxes (Note J)	**73,263**	74,276
Minority interest	**156**	1,343
Earnings from continuing operations	**55,692**	60,405
Earnings from discontinued operations (Note C)	**5,984**	1,739
Net earnings	**$ 61,676**	$ 62,144

Net earnings per share (Note K):		
Continuing operations	**$ 2.07**	$ 2.25
Discontinued operations	**.22**	.07
	$ 2.29	$ 2.32

Information presented has been restated to segregate results of discontinued operations.

Consolidated Balance Sheet
As at December 31, 1979 and 1978

Assets	(Thousands) 1979	1978
Current assets:		
Cash and term deposits	**$ 19,943**	$ 14,751
Short-term investments, at cost which approximates market	**—**	31,889
Accounts receivable	**78,125**	100,045
Inventories (Note D)	**43,855**	38,542
Prepaid expenses	**1,789**	3,588
Net assets of discontinued operations (Note C)	**62,889**	—
	206,601	188,815
Property, plant, equipment and related development costs, at cost: (Note M)		
Coal	**272,489**	248,040
Oil and gas	**568,607**	476,232
Asphalt paving and materials (Note C)	**—**	38,777
Other	**19,477**	14,609
	860,573	777,658
Accumulated depreciation, depletion and amortization	**151,874**	114,510
	708,699	663,148
Other assets	**30,611**	14,703
	$945,911	$866,666

Consolidated Statement of Shareholders' Equity
For the years ended December 31, 1979 and 1978

	Capital Stock Shares Issued	Capital Stock Amount	Contributed Surplus	Retained Earnings
		(Thousands)		
Balance January 1, 1978	26,809,705	$ 26,810	$ 74,831	$143,770
Net earnings — 1978				62,144
Exercise of options	26,050	26	289	
Dividends ($.925 per share)				(24,813)
Balance December 31, 1978	26,835,755	26,836	75,120	181,101
Net earnings — 1979				61,676
Exercise of options	185,600	185	2,333	
Dividends ($1.00 per share)				(26,976)
Balance December 31, 1979	27,021,355	$ 27,021	$ 77,453	$215,801

Liabilities and Shareholders' Equity	(Thousands)	
	1979	1978
Current liabilities:		
Accounts payable and accrued liabilities	**$ 90,920**	$ 97,557
Income taxes payable	**30,452**	23,969
	121,372	121,526
Deferred production income	**1,930**	1,216
Long-term debt (Note E)	**373,984**	352,956
Deferred income taxes	**128,350**	102,435
Minority interest	**—**	5,476
Shareholders' equity:		
Capital stock (Note F)		
Authorized — 28,000,000 common shares of par value $1 each		
Issued and fully paid	**27,021**	26,836
Contributed surplus	**77,453**	75,120
Retained earnings	**215,801**	181,101
	320,275	283,057
Commitments and contingencies (Note G)		
	$945,911	$866,666

Approved by the Directors: Howard E. Cadinha, *Director* E.D.H. Wilkinson, Q.C., *Director*

Auditors' Report

The Shareholders,
Kaiser Resources Ltd.

We have examined the consolidated balance sheet of Kaiser Resources Ltd. as at December 31, 1979 and 1978 and the consolidated statements of shareholders' equity, earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Vancouver, British Columbia
January 23, 1980
(except as to Note P the date
of which is February 15, 1980)

Touche Ross & Co.

Touche Ross & Co.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

For the years ended December 31, 1979 and 1978

	(Thousands)	
	1979	1978
Source of funds:		(Restated)
Earnings from continuing operations	**$ 55,692**	$ 60,405
Depreciation, depletion and amortization	**42,263**	19,376
Deferred income taxes	**32,299**	23,195
Minority interest	**156**	1,343
Funds provided by continuing operations	**130,410**	104,319
Funds provided by discontinued operations	**12,382**	3,717
	142,792	108,036
Additions to long-term debt	**1,504**	322,507
Capital stock issued	**2,518**	315
Sale of assets	**8,985**	712
Net non-current assets of discontinued operations less related deferred taxes	**31,397**	—
Total source of funds	**187,196**	431,570
Application of funds:		
Acquisition of Kaiser Petroleum Ltd.	**16,941**	421,187
Additions to property, plant, equipment and related costs	**116,399**	43,953
Dividends paid	**26,976**	24,813
Other investments and advances	**8,940**	145
Total application of funds	**169,256**	490,098
Increase (decrease) in working capital	**17,940**	(58,528)
Working capital at beginning of year	**67,289**	125,817
Working capital at end of year	**$ 85,229**	$ 67,289
Summary of increase (decrease) in working capital:		
Cash and term deposits	**$ 5,192**	$ (89,774)
Short-term investments	**(31,889)**	31,889
Accounts receivable	**(21,920)**	85,132
Inventories	**5,313**	5,649
Prepaid expenses	**(1,799)**	2,344
Net assets of discontinued operations	**62,889**	—
Accounts payable and accrued liabilities	**6,637**	(80,187)
Income taxes payable	**(6,483)**	(13,581)
	$ 17,940	$ (58,528)

Information presented has been restated to segregate results of discontinued operations.

Notes to the Consolidated Financial Statements

December 31, 1979 and 1978

Note A — Summary of Significant Accounting Policies

Accounting Principles:

The Company is incorporated under the Companies Act of the Province of British Columbia and prepares its accounts in accordance with generally accepted accounting principles followed in Canada.

Principles of Consolidation:

The consolidated financial statements include the accounts of all subsidiaries. The principal subsidiaries are Kaiser Petroleum Ltd. and Westshore Terminals Ltd.

Inventories:

Product inventories are valued at the lower of average cost and net realizable value. Inventories of operating supplies are valued at average cost. Depreciation, depletion and amortization of preproduction and development costs are not included in product inventory costs.

Property, Plant, Equipment and Related Development Costs:

Acquisition costs of coal bearing lands are capitalized and depleted over the expected recovery of coal from the property by the unit of production method. Coal exploration costs are charged against earnings when incurred. Costs incurred in connection with feasibility studies for new mining projects are capitalized and charged against earnings over the life of the mine or written off when the project is proven unfeasible. Preproduction and development costs are capitalized and amortized on the straight line basis over the life of each mine.

Costs incurred in crude oil and natural gas activities are accounted for under the successful efforts method. Costs of acquiring exploration rights on oil and gas properties are capitalized. A provision for impairment in value of undeveloped properties is made against earnings at an increasing rate each year over the period of the exploration rights based on experience. When an undeveloped property is surrendered, the original cost of the property is charged against the accumulated provision for impairment. If the cost of properties surrendered exceeds the accumulated provision for impairment, the excess is charged against earnings. When an undeveloped property is proven to be productive, the original cost is transferred to developed properties and amortized by the unit of production method over estimated proven reserves.

Exploration expenditures, including geological and geophysical costs, annual rentals on undeveloped properties and drilling costs of exploratory dry holes are charged against earnings. Costs of drilling successful wells and other development costs are capitalized as developed properties and amortized by the unit of production method over estimated proven reserves.

Plant and equipment is depreciated on the straight line basis over the estimated useful life of each asset for periods up to 25 years, except for oil and gas production equipment which is depreciated by the unit of production method.

Expenditures for repairs and maintenance of plant and equipment are charged against earnings. Replacements and major improvements are capitalized. Costs of assets sold, retired or abandoned and the related amounts of accumulated depreciation are eliminated from the accounts. Gains or losses on such dispositions are included in earnings.

Pension Plans:

Annual contributions to employee pension plans are charged against earnings. Pension contributions are actuarially determined to include amounts necessary to provide for current service and for funding of past service liabilities over 15 years.

Income Taxes:

Income taxes are accounted for by the tax allocation method. Under this method, provision for taxes is made in the year transactions affect net income as opposed to when such items are recognized for tax purposes. Differences between the provision for taxes and taxes currently payable are reflected as deferred income taxes. Tax benefits resulting from allowances for frontier oil and gas exploration are deferred and reflected in earnings at the same time as the related exploration costs. Tax benefits from earned depletion are reflected as a reduction in the tax rate in the year claimed.

Note B — Acquisition of Kaiser Petroleum Ltd.

During 1979, the Company increased its ownership interest in Kaiser Petroleum Ltd. to 100 percent through the purchase of the remaining common shares held by the public for $16,941,000 increasing its costs of acquisition to $482,413,000. The Company purchased its initial 79 percent interest in Kaiser Petroleum Ltd. on October 3, 1978 and increased its ownership to 97 percent by December 31, 1978. The acquisition has been accounted for under the purchase method of accounting. The excess of purchase price over book value of net assets acquired has been allocated to oil and gas properties.

If the Company had acquired 100 percent ownership interest in Kaiser Petroleum Ltd. at the beginning of 1978, the unaudited pro forma consolidated results for that year, for comparison with current results, would have shown revenues of $433,200,000, net earnings of $55,400,000, net earnings per share of $2.07 and funds provided by operations of $125,000,000.

Note C — Discontinued Operations

During the fourth quarter of 1979, the Company made the decision to dispose of the asphalt paving and materials business which was acquired as part of Kaiser Petroleum Ltd. on October 3, 1978. Accordingly, operating results for that business are reflected in the earnings statement as discontinued operations and are summarized as follows:

	(Thousands)	
	1979	1978
Revenue	**$151,797**	$ 39,035
Cost of products and services sold	**128,076**	31,775
General and administrative	**6,863**	1,972
Depreciation and depletion	**5,788**	1,444
Provision for income taxes	**5,086**	2,105
Earnings from discontinued operations	**$ 5,984**	$ 1,739

Net assets of discontinued operations as shown in the balance sheet at December 31, 1979 are summarized as follows:

	(Thousands)	
	1979	
Property, plant and equipment, at cost	**$ 45,180**	
Less: Accumulated depreciation and depletion	**6,485**	**$ 38,695**
Other assets		**81**
		38,776
Less: Long-term debt	**$ 346**	
Deferred income taxes	**1,545**	**1,891**
Net non-current assets		**36,885**
Working capital		**26,004**
Net assets of discontinued operations		**$ 62,889**

On January 9, 1980, the Company entered into an agreement to sell the asphalt paving and materials business effective January 2, 1980 for the net assets of the business referred to above plus $6,250,000. The agreement requires the purchaser to issue to the Company $11,250,000 of subordinated notes and to pay the remainder of the purchase price in cash. The notes bear interest at the rate of 13¾ percent and are due in instalments of $2,500,000 in February 1981 and 1983 and $6,250,000 in February 1985. The transaction will be reflected in the accounts of the Company after the closing date in the first quarter of 1980.

Note D — Inventories

	(Thousands)	
	1979	1978
Coal	**$ 21,079**	$ 11,978
Crude oil	**3,069**	2,095
Asphalt paving and materials	**—**	8,883
Operating supplies	**19,707**	15,586
	$ 43,855	$ 38,542

Amounts shown for operating supplies have been reduced by provisions for shrinkage and obsolescense of $1,153,000 in 1979 and $1,311,000 in 1978.

Note E — Long-Term Debt

	(Thousands)	
	1979	1978
Bank loans, secured by shares in Kaiser Petroleum Ltd., at the prime rate of interest until December 31, 1979, at rates over prime of ⅜% to December 31, 1982, ½% to December 31, 1984 and ¾% to March 31, 1989, repayable in 28 equal quarterly instalments commencing June 30, 1982	**$322,507**	$322,507
10⅜% sinking fund debentures due November 1, 1996, with annual sinking fund payments of $1,500,000 commencing November 1, 1981	**30,000**	30,000
Brae Field interim financing, U.S. $20,000,000 revolving bank credit, interest at LIBOR plus ⅜%, outstanding U.S. $18,378,000	**21,477**	—
Other	**—**	449
	$373,984	$352,956

There are no long-term debt repayments scheduled for 1980. Long-term debt maturities for the years 1981 through 1984 are $1,500,000, $36,054,000, $47,572,000 and $47,572,000, respectively.

Note F — Capital Stock

The Company has a stock option program for officers and salaried employees. Options to purchase shares are exercisable for four years commencing one year after the date of grant. Option prices are based on the average of the high and low market prices of shares traded on the Toronto Stock Exchange on the date of grant. At December 31, 1979, there were options outstanding to purchase 343,050 shares at prices ranging from $10.13 to $31.56 per share through September 4, 1984. At December 31, 1978, there were options outstanding to purchase 329,850 shares.

Note G — Commitments and Contingencies

The Company is a participant in a project for the exploration and development of oil and gas in an area designated as the Brae Field in the United Kingdom Sector of the North Sea. During the year, the Company increased its working interest in the project to 7.7 percent from 1.4 percent. Application has been made to the U.K. Department of Energy for approval to develop the project. Development is expected to commence in 1980 with commercial production starting in late 1983. The Company's share of development costs are estimated to total $235,000,000 in this period. One half of amounts advanced as development costs will constitute loans to another participant under a carried interest obligation. Amounts advanced under this obligation will be repayable with interest by the participant only from 70 percent of its future net proceeds earned from the project.

Note H — Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid to directors and senior officers of the Company amounted to $2,601,000 for 1979 and $1,411,000 for 1978.

Note I — Pension Plans

The Company has pension plans for hourly and salaried employees. Contributions to these plans amounted to $3,094,000 for 1979 and $1,732,000 for 1978. Increased contributions for 1979 result from a change in salaried employee plans to a non-contributory basis and the inclusion of Kaiser Petroleum Ltd. for the full year. At December 31, 1979, the unfunded past service liability for all pension plans amounted to $8,997,000.

Note J — Provision for Income Taxes

	(Thousands)	
	1979	1978
Current:		
Federal and provincial income taxes	**$ 27,065**	$ 37,242
British Columbia mining tax	**13,899**	13,839
	40,964	51,081
Deferred:		
Federal and provincial income taxes	**30,407**	21,299
British Columbia mining tax	**1,892**	1,896
	32,299	23,195
	$ 73,263	$ 74,276

Deferred income taxes result from timing differences between the recognition of expenses for income tax and financial statement purposes and are summarized as follows:

	(Thousands)	
	1979	1978
Depreciation	**$ 10,611**	$ 11,420
Exploration and development costs	**11,095**	8,839
Oil and gas frontier exploration allowances and depletion benefits	**11,530**	3,571
Other	**(937)**	(635)
	$ 32,299	$ 23,195

The difference between the composite of the statutory income tax rates for the Company and its subsidiaries and the effective tax rate is summarized as follows:

	1979	1978
Composite statutory federal and provincial income tax rate	**50.0%**	50.5%
Increase (decrease) resulting from:		
Non-deductible payments to provincial governments for mining taxes, royalties and mineral land taxes	**27.7**	17.9
Non-deductible amortization of oil and gas properties	**6.3**	1.6
Federal resource allowance	**(17.8)**	(11.6)
Earned depletion	**(7.1)**	(1.6)
Other	**(2.4)**	(2.2)
Effective tax rate	**56.7%**	54.6%

Note K — Earnings Per Share

Earnings per share are calculated on the weighted average number of shares outstanding of 26,955,794 in 1979 and 26,821,796 in 1978.

Note L — Impact of Inflation

The effect of inflation has been to increase the cost of operations. In the coal business, the suspension of escalation provisions in the principal sales contracts for the two years ending March 31, 1980 has prevented the Company from recovering cost increases through price escalation. In the oil and gas business, the recovery of increases in operating costs has largely been achieved through increases in energy prices.

Information on replacement cost for inventories, cost of sales, plant and equipment and related depreciation will be provided in the Company's annual report on Form 10-K, which will be filed with the Securities and Exchange Commission, Washington, D.C., before March 31, 1980. A copy of the report may be obtained from the Company upon request.

Note M — Business Segments

(Thousands)

	1979				1978			
	Total	Coal	Oil and Gas	Unallocated	Total	Coal	Oil and Gas	Unallocated
Revenue								
Export Japan	$260,071	$260,071	$ —	$ —	$237,775	$237,775	$ —	$ —
Other	103,115	103,115	—	—	86,825	86,825	—	—
Domestic	114,535	11,112	103,423	—	35,001	9,321	25,680	—
Interest and other income, net	6,563	(2,407)	6,346	2,624	9,530	7,258	1,299	973
	484,284	371,891	109,769	2,624	369,131	341,179	26,979	973
Cost of products sold	218,375	199,160	19,215	—	171,795	167,702	4,093	—
General and administrative	35,909	16,027	8,504	11,378	23,911	18,961	2,097	2,853
Exploration and related costs	14,361	2,678	11,683	—	9,629	2,609	7,020	—
Depreciation, depletion and amortization	42,263	12,277	29,108	878	19,376	12,750	6,490	136
Operating profit	$173,376	$141,749	$ 41,259	$ (9,632)	$144,420	$139,157	$ 7,279	$ (2,016)
Capital expenditures	$116,399	$ 27,762	$ 71,007	$ 17,630[1]	$ 43,953	$ 23,363	$ 18,474	$ 2,116[1]
Identifiable assets — at cost:								
Developed properties and related costs	$415,468	$ 43,301	$372,167	$ —	$374,715	$ 40,770	$333,945	$ —
Undeveloped properties	189,318	—	189,318	—	138,727	—	138,727	—
Other properties	1,405	454	951	—	951	—	951	—
Plant and equipment	254,382	228,734	6,171	19,477	224,488	207,270	2,609	14,609
	$860,573	$272,489	$568,607	$ 19,477	$738,881	$248,040	$476,232	$ 14,609
Accumulated depreciation, depletion and amortization	$151,874	$115,717	$ 34,118	$ 2,039	$114,510	$105,546	$ 6,400	$ 2,564[1]
Total assets	$945,911	$215,520	$645,893	$ 84,498[1]	$866,666	$203,946	$565,081	$ 97,639[1]

[1]Includes the following information for discontinued operations: 1979 capital expenditures $7,059,000, total assets $62,889,000; 1978 capital expenditures $330,000, accumulated depreciation, depletion and amortization $1,156,000 and total assets $77,184,000.

Exports to Japan represent sales of metallurgical coal to Mitsubishi Corporation under a contract extending through March 31, 1985. An amendment to the contract effective April 1, 1978 established the price of coal at $59.60 per long ton for the two years ending March 31, 1980 and provided that no price adjustments for escalation would be allowed in that period. The contract amendment also provides for price renegotiations effective April 1, 1980 subject to binding arbitration if the parties are unable to agree.

Information presented for oil and gas operations reflects activities from the date of acquisition October 3, 1978. Oil and gas revenue excludes royalties and excise taxes. Crude oil is purchased from other producers for resale to refiners and the excess of revenues over related costs is reported as other Income.

Note N — Quarterly Financial Data (Unaudited)

(Thousands except for share statistics)

	1979 Quarters Ended				1978 Quarters Ended			
	Mar. 31	**June 30**	**Sept. 30**	**Dec. 31**	Mar. 31	June 30	Sept. 30	Dec. 31
Sales of products	**$121,632**	**$125,902**	**$121,354**	**$108,833**	$ 77,411	$ 72,041	$101,533	$108,616
Gross profit	**68,660**	**69,730**	**62,639**	**58,317**	36,174	34,016	53,501	64,115
Net earnings (loss):								
Continuing operations	**16,207**	**17,023**	**11,264**	**11,198**	13,380	12,237	21,263	13,525
Discontinued operations	**(2,154)**	**(83)**	**6,190**	**2,031**	—	—	—	1,739
	$ 14,053	**$ 16,940**	**$ 17,454**	**$ 13,229**	$ 13,380	$ 12,237	$ 21,263	$ 15,264
Net earnings (loss) per share:								
Continuing operations	**$ .60**	**$ .63**	**$ .42**	**$ .42**	$ .50	$ .46	$ .79	$ .50
Discontinued operations	**(.08)**	**—**	**.23**	**.07**	—	—	—	.07
	$ .52	**$ .63**	**$ .65**	**$ .49**	$ .50	$ .46	$ .79	$ .57
Dividends per share	**.25**	**.25**	**.25**	**.25**	.225	.225	.225	.25
Common stock price (Toronto Stock Exchange)								
High	**$20.63**	**$25.88**	**$35.50**	**$33.00**	$14.88	$15.38	$16.50	$17.00
Low	**15.63**	**18.25**	**23.13**	**23.25**	12.88	14.25	14.00	14.50

Information presented has been restated to segregate results of discontinued operations.

Note O — Supplementary Oil and Gas Information

Capital and operating expenditures incurred in oil and gas operations are summarized as follows:

	(Thousands)	
	1979	1978
Domestic:		
Property acquisitions	**$ 20,682**	$ 4,358
Exploration	**33,659**	17,050
Development	**23,228**	4,039
Production	**19,215**	4,093
	96,784	29,540
Foreign exploration	**5,131**	35
	$101,915	$ 29,575

Note P — Subsequent Events

On February 12, 1980, the Company entered into an agreement to sell most of its Canadian oil and gas operations, effective February 1, 1980, for approximately $700,000,000 cash. From these proceeds, the Company will repay $322,507,000 of long-term debt and will, pursuant to a tender offer dated February 15, 1980, offer to purchase, pro-rata, 9,000,000 of its outstanding common shares at a price of $43 per share.

The following condensed consolidated balance sheet at December 31, 1979 reflects, on a pro-forma basis, the sale of the oil and gas operations and the asphalt paving and materials business referred to in Note C, the resulting gain of $232,564,000, net of income taxes of $57,785,000, the repayment of the long-term debt and the purchase of 9,000,000 common shares.

	(Thousands)	
	December 31, 1979	
	Actual	Pro-forma
Current assets	**$206,601**	**$ 94,200**
Property, plant, equipment and related development costs, net of accumulated depreciation, depletion and amortization	**708,699**	**218,792**
Other assets	**30,611**	**38,763**
	$945,911	**$351,755**
Current liabilities	**$121,372**	**$ 86,308**
Deferred production income	**1,930**	**—**
Long-term debt	**373,984**	**21,477**
Deferred income taxes	**128,350**	**79,631**
Shareholders' equity	**320,275**	**164,339**
	$945,911	**$351,755**

The consolidated statement of earnings for the year ended December 31, 1979 includes revenue of $109,769,000 and net earnings of $14,584,000 relating to the oil and gas operations sold, and interest of $41,153,000 related to the long-term debt repaid.

Five-Year Review

(Thousands except per share data)	**1979**	1978	1977	1976	1975
Sales					
Coal — tons	**6,180**	5,738	5,478	4,954	5,593
Oil — barrels	**9,340**	2,477	—	—	—
Gas — mcf	**25,886**	6,548	—	—	—
Summary of Earnings					
Revenue:					
Coal	**$374,298**	$333,921	$299,005	$262,890	$259,870
Oil & Gas	**103,423**	25,680	—	—	—
Interest and other income, net	**6,563**	9,530	8,722	11,732	5,564
Total	**484,284**	369,131	307,727	274,622	265,434
Cost of products sold	**218,375**	171,795	147,900	121,561	116,349
General and administrative	**35,909**	23,911	18,294	14,148	11,913
Exploration and related costs	**14,361**	9,629	2,020	1,049	1,123
Interest on long-term debt	**44,265**	8,396	864	1,548	2,535
Depreciation, depletion and amortization	**42,263**	19,376	12,520	16,401	15,261
Earnings before income taxes and other items	**129,111**	136,024	126,129	119,915	118,253
Provision for income taxes	**73,263**	74,276	68,847	67,528	54,253
Minority interest	**156**	1,343	—	—	—
Extraordinary items	**—**	—	—	—	7,229[1]
Earnings from continuing operations	**55,692**	60,405	57,282	52,387	71,229
Earnings from discontinued operations	**5,984**	1,739	—	—	—
Net Earnings	**$ 61,676**	$ 62,144	$ 57,282	$ 52,387	$ 71,229
Weighted average number of shares outstanding	**26,956**	26,822	26,792	26,394	25,158
Share Statistics					
Basic earnings:					
Continuing operations	**$ 2.07**	$ 2.25	$ 2.14	$ 1.98	$ 2.54
Before extraordinary items	**2.29**	2.32	2.14	1.98	2.54
Net Earnings	**2.29**	2.32	2.14	1.98	2.83
Dividends	**1.00**	.925	.87	.815	.75
Book value at year end	**11.85**	10.55	9.15	7.89	6.85
TSE common stock price — high	**35.50**	17.00	15.63	16.38	12.75
— low	**15.63**	12.88	12.75	9.38	4.90
Other Financial Data					
Cash flow from operations	**$142,792**	$108,036	$ 84,666	$ 77,922	$ 99,773
Working capital	**85,229**	67,289	125,817	102,380	66,315
Capital expenditures	**116,399**	43,953	33,542	13,330	21,416
Total assets	**945,911**	866,666	312,755	295,646	261,869
Total long-term debt	**373,984**	352,956	—	11,708	18,980
Shareholders' equity	**320,275**	283,057	245,411	210.945	177,564
Shareholders at year end	**6,386**	6,076	6,398	6,455	5,390
Number of employees	**2,579**	2,730	1,930	2,030	2,008

Note: [1]Reduction of income taxes otherwise payable due to the application of loss carry-forwards.

Information presented has been restated to segregate results of discontinued operations.

Management's Discussion and Analysis of the Consolidated Statement of Earnings

Following is an analysis of significant variances of revenue and expense in the Consolidated Statement of Earnings.

The inclusion of operating results of the oil and gas division from October 3, 1978 caused significant variations in revenue and expense. The division was engaged in the oil and gas and asphalt paving and materials business. Note M to the Consolidated Financial Statements reflects the impact of the new business segments on the revenues and expenses for 1978 and 1979. Prior to October 3, 1978, the Company had no significant operations other than its coal business. The Company has determined to sell the asphalt paving and materials operations which were acquired as part of the oil and gas division. Accordingly, operating results for that business are reported as discontinued operations.

Notes C and P to the Consolidated Financial Statements report significant subsequent events which will affect future revenues and expenses.

1979 Compared with 1978

Revenue increased by $115.2 million to $484.3 million. The acquisition of the oil and gas business accounted for $82.8 million of the increase. The remaining $32.4 million of the increase was principally due to a 13 percent increase in metallurgical coal shipments. Deliveries of metallurgical coal increased as a result of increased steel production in Japan, and continued improvement in markets for coal outside of Japan. In 1979, 69 percent of revenue from coal shipments was derived from metallurgical coal delivered to Japan under a long-term contract with Mitsubishi Corporation, compared with 71 percent in 1978. The price of $59.60 per ton for coal sold under this contract has been in effect since April 1, 1978.

Costs and expenses increased by $122.1 million in 1979. The oil and gas business accounted for $48.8 million of the increase. The remainder is accounted for as follows:

Cost of coal sold increased by $31.5 million, mainly as a result of higher shipment levels, increases in rail freight costs and labour and material cost increases.

General and administrative expenses increased by $5.6 million in the coal and corporate office activities and related principally to additions to staff, salary increases and higher spending for travel.

Interest on long-term debt increased as a result of debt incurred in conjunction with the acquisition of Kaiser Petroleum Ltd.

The increase in the *provision for income taxes* resulted from a higher effective income tax rate primarily due to the non-deductibility for tax purposes of the amortization of the excess of market value over book value paid for the shares of Kaiser Petroleum Ltd.

1978 Compared with 1977

Revenue increased by $61.4 million to $369.1 million. The acquisition of the oil and gas business accounted for $27 million of the increase. The remaining $34.4 million of the increase was principally due to higher metallurgical coal shipments at higher prices. Deliveries of metallurgical coal increased by seven percent as a result of continued success in securing new markets for coal outside of Japan. In 1978, 71 percent of the revenue from coal shipments was derived from metallurgical coal delivered to Japan under a long-term contract with Mitsubishi Corporation, compared with 79 percent in 1977. The price for coal under this contract increased by $1.96 to $59.60 per ton during the year.

Costs and expenses increased by $51.5 million in 1978. The oil and gas business acquired on October 3, 1978 accounted for $15.8 million of the increase. The remainder is accounted for as follows:

Cost of coal sold increased by $19.8 million, reflecting higher labour, material and rail freight costs and higher shipment levels.

General and administrative expenses increased by $3.5 million in the coal and corporate office activities and related principally to higher salary and travel costs and higher costs for outside services associated with engineering and other studies.

Exploration and related costs increased due to the Company's participation throughout 1978 in offshore oil and gas exploration activities which are accounted for under the successful efforts method. Exploration costs totalling $3.9 million were charged against earnings as a result of the drilling activity in the Sable Island area off the east coast of Canada.

Interest on long-term debt increased as a result of debt incurred in conjunction with the acquisition of Kaiser Petroleum Ltd.

The increase in the *provision for income taxes* was related to higher earnings.

Prior Years

Coal revenue increased by $33.1 million in 1977 as a result of an eight percent increase in metallurgical coal shipments and a price increase of $2.55 to $57.64 per ton for metallurgical coal shipped to Japan. Reduced charges for *depreciation, depletion and amortization* were caused by the extension of the estimated useful lives of certain major coal facilities to 25 years from 15 years.

Coal revenue in 1976 increased slightly over the preceding year as the price increase for metallurgical coal shipped to Japan of $2.69 to $55.09 per ton was offset by a decline of nine percent in metallurgical coal shipments. *Provision for income taxes* rose by $13.3 million in 1976 as a result of higher federal and provincial income tax rates, and the decrease in earned depletion benefits which are treated as a tax rate reduction in the year claimed. The absence of *extraordinary income* in 1976 reflects the exhaustion of accumulated loss carry-forwards in the preceding year.

Corporate Directory

Kaiser Resources Ltd.

Directors

Edgar F. Kaiser, Jr.*
Chairman of the Board
Chairman of the Executive Committee
and Chief Executive Officer
Kaiser Resources Ltd., Vancouver

Graham R. Dawson*
Vice-Chairman, Kaiser Resources Ltd.
President
Dawson Construction Limited
Vancouver
(heavy construction contractors)

Howard E. Cadinha
Executive Vice-President
Finance
Kaiser Resources Ltd., Vancouver

Colin M. Evans
President, Kaiser Oil (U.S.) Ltd.
Denver, Colorado

Roger T. Hager*†
Retired Chairman
The Canadian Fishing Company
Limited
Vancouver (fish processing)

Enji Haseo
Executive Vice-President
Mitsubishi Corporation
Tokyo (trading company)

Robert W. MacPhail
Senior Vice-President
Kaiser Resources Ltd., Vancouver

John W. Poole*
President and Chief Executive Officer
Daon Development Corporation
Vancouver (real estate development)

Walter J. Riva
President, Coal Division
Kaiser Resources Ltd., Vancouver

Edward A. Tory†
Partner, Campbell, Godfrey & Lewtas
Toronto (barristers and solicitors)

George L. Wilcox
Director-Officer
Westinghouse Electric Corporation
Pittsburgh, Pennsylvania
(electrical equipment manufacturing)

E.D.H. Wilkinson, Q.C.†
Partner, Russell & DuMoulin
Vancouver (barristers and solicitors)

*Member of Executive Committee
†Member of Audit Committee

Officers

Edgar F. Kaiser, Jr.
Chairman of the Board
Chairman of the
Executive Committee
Chief Executive Officer

Graham R. Dawson
Vice-Chairman of the Board

Walter J. Riva
President
Coal Division

Howard E. Cadinha
Executive Vice-President, Finance

Christopher H. Hebb
Executive Vice-President
Administration
and Legal Services, and Secretary

George L. Farinsky
Senior Vice-President
Corporate Development

Robert W. MacPhail
Senior Vice-President

Ronald E. Adie
Vice-President and Treasurer

John E. Hoegg
Vice-President, Corporate Affairs

Hans J. Krutzen
Vice-President, Administration

Bent H. Larsen
Vice-President and Controller

Ward P. Popenoe
Vice-President
Administrative Services

Michael R. Whitman
Vice-President

Thomas A. Beckett
Chief Counsel, Coal Division
and Assistant Secretary

Peter J. Surrao
Assistant Secretary

Coal Division

Senior Management

Walter J. Riva
President

Gary K. Livingstone
Vice-President & General Manager
Sparwood Operations

Gordon M. Edgar
President
Westshore Terminals Ltd.

Robert C. Stanlake
Vice-President
Marketing & Sales

Gary S. Duke
Vice-President
Government Relations

Robert H. Gronotte
Vice-President
Engineering

John H. Harvie
Vice-President
Marketing & Sales —
Far East

Robert G. Heers
Vice-President
New Project Development

John J. Jacobsen
Vice-President
Shipping

Brian L. McDermott
Vice-President
Marketing & Sales —
North & South America

Peter J. Surrao
Controller

Richard W. Lewis
General Superintendent
Underground Mines

L. Junie Lindsay
General Superintendent
Coal Processing
and Manager
Operations, Greenhills Mine

Lawrence W. Riffel
General Superintendent
Harmer Operations

Nigel Stonestreet
General Superintendent
Mine Engineering & Planning

Oil and Gas Division

Senior Management

Colin M. Evans
President
Kaiser Oil (U.S.) Ltd.

Gary Van Cleave
General Manager
Kaiser Oil (U.S.) Ltd.

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Touche Ross & Co.

Transfer Agent
Canada Permanent Trust Company
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal

Registrar
National Trust Company Limited
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal

Shares Listed
Vancouver, Toronto and
Montreal Stock Exchanges

Annual Meeting
The annual meeting of shareholders will be held on May 7, 1980 at the Bayshore Inn, 1601 West Georgia Street, Vancouver, B.C. at 11:00 a.m. local time.

An independent panel of judges selected the Kaiser Resources 1978 annual report as the best in North America's coal and uranium industries in an annual competition sponsored by Financial World magazine of New York.

Kaiser Resources Ltd.
Best 1978 Annual Report
Coal, Uranium

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